

AGENDA ITEM SUMMARY

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Recommendation for Adjustments to Public Institutions Operating Appropriations and Need-based Financial Aid

Coordinating Board for Higher Education

October 14, 2004

DESCRIPTION

In recent years, Missouri's commitment to fund its public institutions has been restricted because of the state's fiscal challenges. As the fiscal environment apparently improves, it is time to begin pursuing state investment for Missouri's public institutions in a manner that makes sense in all economic times. The intent of this agenda item is to outline the three components that will provide an additional \$25 million to two of Missouri's student financial aid programs and approximately \$55 million in additional funding for Missouri's public institutions of higher education.

Background

Need-based Financial Aid

Tuition prices across the nation at public institutions rose substantially from the fall of 1995 to the fall of 2002; the average cost of attendance at a public four-year institution increased 39 percent and 37 percent at community colleges according to the report *Informing Public Policy: Financial Aid and Student Persistence* by Western Interstate Commission for Higher Education (WICHE). From the fall of 2001 to the fall of 2004, tuition and fees at all of Missouri's public institutions increased 39.4%. For the past several years there has been an increase in the number of students qualifying for need-based aid.

Today, two of the state administered scholarships for need-based aid, the Missouri College Guarantee Program and the Charles Gallagher Student Assistance Program, serve approximately 25 percent of their eligible applicants. In FY 2002, the number of unfunded College Guarantee students was 5,983 for a total unmet need of \$11,428,327. Those numbers increased in FY 2004 to 11,667 students for a total of \$34,194,979 in unmet need. The number of unfunded students for the Charles Gallagher Program in FY 2002 was 30,535 for a total unmet need of \$37,559,953 while in FY 2004 the numbers increased to 42,013 unfunded students totaling \$53,784,481.

As tuition rises at our institutions, the necessity for need-based aid will continue to rise as illustrated by the figures above. Because there are such large numbers of unfunded students in both of these scholarships, an additional \$17 million in funding for the Missouri College Guarantee Program and \$8 million in funding for the Charles Gallagher Student Assistance Program is being requested for FY 2006. These additional funds will provide approximately 8,600 additional Guarantee scholarships and approximately 6,150 additional Gallagher program scholarships. These increases will bring both

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programs to approximately \$25 million each in funding or a total of over \$50 million in need-based aid to be distributed to Missouri students.

Performance Funding

Since the early 1990s, Missouri has embraced the concept that funding should be used to promote and acknowledge results. The Funding for Results (FFR) process was an early model of similar efforts nationwide. Standardized indicators were used both as an accountability system and as a trigger for funding recommendations based on results. While FFR was not a perfect system, Missouri's educational leadership embraced the concept that limited funding should be used to promote and acknowledge results.

The Governor and several legislators have stressed the importance of quality and performance within Missouri's higher education system. The importance of engaging in performance-based budgeting was reinforced by the General Assembly and the Governor in SB 299, which became effective August 28, 2003.

Because Missouri's public institutions' administrators are aware of the move towards performance-based budgeting, many of them have asked for specific funding that will enhance the performance of their institution. One example of a performance funding request is funding for endowed chairs which will use state resources to attract external funding for the purpose elevating the stature of selected academic and research programs. Another request for performance funding includes money that will be used to enhance outlying higher education centers. There are also requests to use performance funding for enhanced technology to redesign instruction resulting in a cost savings and improved teacher quality.

Linking funding to performance helps to establish priorities for improvement initiatives. Therefore, an additional \$17,092,082 for performance funding is being requested. This request is two percent of the FY 2005 core funding to the institutions.

Resource Priorities and Investment Protection

Since FY 2000, expenses have increased at Missouri's public institutions by 17%, while appropriations have declined by 7%. Because of this divergence, the institutions have worked to become more efficient during this period. However, some fixed cost expenses are out of their control.

Staff benefit costs such as health care and retirement are increasing. Some institutions estimate increases up to 20%. The costs of utilities, electronic media, information technology, supplies and services are increasing as well. In addition, maintenance and repair of campus buildings has been deferred the past few years. These fiscal constraints make it difficult for the institutions to direct more money to instruction of the students.

Institutions require more state funding to direct expenditures toward instruction and student support. By providing more state support, Missouri's public institutions will be better prepared to contain costs and keep tuition increases to a minimum, contributing to the rise in Missouri college completion rates.

Additional state funding is expected to contribute to CBHE's goal of increasing the number of degrees granted by 50% through 2015 at four-year institutions and 100% at two-year institutions. Thus, Missouri's citizens will be better educated while increasing their earning capacity which will help the economy and the future for all residents. Additional funding of \$38,457,186 or approximately a 4.5 percent increase from the FY 2005 core appropriation would make up approximately one-third of the difference in appropriations from FY 2002 funding levels. This increase will help the institutions direct state funding to the students and the rising fixed costs.

Conclusions

Missouri's investment in need-based financial aid is very low when compared with top-performing states according to *Measuring Up 2004-The State Report Card on Higher Education* produced by the National Center for Public Policy and Higher Education. Need-based student financial aid is a necessity if we want to increase the number of low income, underrepresented students who attend and complete post-secondary education in Missouri. Providing an additional \$25 million in need-based financial aid to Missouri's students will be a step in the right direction for Missouri's future.

Linking a portion of the FY 2006 budget to performance funding associated with state priorities, such as increases in participation and completion, will demonstrate a collective commitment by Missouri's system of higher education to enhance educational quality throughout the state.

Providing additional state resources to institutions will enable them to address fixed cost increases while protecting previous state investments. Additional state investment, combined with increases to need-based financial aid, will make higher education in Missouri more affordable.

STATUTORY REFERENCE

Section 163.191, RSMo, CBHE statutory responsibility to develop an appropriations request for community colleges

Sections 173.005.2(2), 173.030(3), and 173.040(5), RSMo, CBHE statutory responsibility to establish guidelines for appropriations requests and to recommend a budget for each state-supported college or university

Section 173.005.2(7), RSMo, CBHE statutory responsibility for gathering data from state-supported institutions

RECOMMENDED ACTION

It is recommended that the Board approve the CBHE FY 2006 three-part appropriation request, which includes \$25 million in need-based financial aid, \$17,092,082 in performance funding, and \$38,457,186 in resource priority and investment protection funding, as presented, for submission to the Governor and General Assembly.

ATTACHMENT (S)

None